

Message Text

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ORIGIN EUR-25

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TO USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, OECD, US

SUBJECT: SECRETARIAT REPORT FOR EPC MEETING

FOR SUMMERS FROM CEA CHAIRMAN STEIN

1. PLEASE PASS ATTACHED MESSAGE TO MARRIS, ANDERSON, OR
OTHER APPROPRIATE SECRETARIAT OFFICIAL:

A. THE OECD SECRETARIAT SEEMS OBSESSED BY THE BELIEF
THAT REAL OUTPUT DECLINED IN THE FIRST QUARTER IN THE
U.S. BECAUSE OF "THE EROSION OF CONSUMER PURCHASING
POWER THROUGH RAPID INFLATION." THIS BELIEF IS SUPPORTED
BY THE OBSERVATION THAT THE PERSONAL SAVINGS RATIO
FELL FROM 7-1/2 PERCENT IN IV 1973 TO 6-3/4 PERCENT IN I
1974. IN THIS INTERPRETATION THE OIL SHORTAGE
AFFECTED THE PATTERN OF CONSUMER EXPENDITURES, CAUSING
A DECLINE IN AUTOMOBILE-RELATED EXPENDITURES, BUT DID NOT
AFFECT TOTAL CONSUMER EXPENDITURES.

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B. THIS SEEMS A VERY STRAINED AND UNCONVINCING EXPLANATION OF WHAT HAPPENED. IT SEEMS MORE REASONABLE TO SAY THAT REAL DISPOSABLE INCOME (PURCHASING POWER) DECLINED BECAUSE REAL OUTPUT DECLINED, AND REAL OUTPUT DECLINED PRIMARILY BECAUSE PRODUCTION OF AUTOMOBILES DECLINED. THE DECLINE OF REAL CONSUMERS INCOME EXCEEDED THE DECLINE OF REAL CONSUMERS EXPENDITURES CHIEFLY BECAUSE THE

DECLINE OF AUTOMOBILE OUTPUT EXCEEDED THE DECLINE IN CONSUMERS EXPENDITURES FOR AUTOMOBILES. (IN \$ 1958 BETWEEN IV 1973 AND I 1974 THE ANNUAL RATE OF AUTO PRODUCTION DECLINED BY \$12.3 BILLION AND THE ANNUAL RATE OF CONSUMPTION EXPENDITURE FOR AUTOMOBILES DECLINED BY \$2.5 BILLION.) DESPITE SUFFERING A DECLINE OF ABOUT \$10 BILLION IN REAL INCOME, CONSUMERS CUT THEIR EXPENDITURES ONLY BY \$4.1 BILLION, OF WHICH, AS JUST NOTED, \$2.5 BILLION WAS FOR AUTOMOBILES.

C. GIVEN THE DECLINE IN REAL OUTPUT, REAL DISPOSABLE PERSONAL INCOME HAD TO FALL ALSO, UNLESS THERE WERE A MARKED FALL IN REAL TAXES OR REAL GROSS CORPORATE SAVINGS. IN FACT, THERE WAS NO SUCH SHIFT. REAL DISPOSABLE PERSONAL INCOME WAS .7260 PERCENT OF REAL GNP IN IV 1973 AND .7261 PERCENT IN I 1974. IF THERE WAS TO BE A FALL IN REAL DISPOSABLE PERSONAL INCOME THERE WOULD PROBABLY HAVE TO BE A FALL IN TOTAL HOURS WORKED OR A FALL IN REAL COMPENSATION PER HOUR, OR BOTH. IN FACT, WE GOT SOME OF BOTH, BUT MOSTLY WE GOT A FALL IN REAL COMPENSATION PER HOUR. WORKERS WERE KEPT ON, PRODUCTIVITY DECLINED SHARPLY, UNIT LABOR COSTS ROSE SHARPLY, PRICES ROSE SHARPLY AND REAL COMPENSATION PER MAN HOUR DECLINED.

D. IT DOES NOT SEEM SENSIBLE TO SAY THAT WE HAVE 50 MILLION HOUSEHOLDS WHO HAVE LOST REAL PURCHASING POWER AND WHO THEREFORE HAVE DECIDED TO CUT THEIR SPENDING AND THAT, BECAUSE OF THE OIL SHORTAGE, THEY EFFECT THIS CUT BY HAVING 1 OR 2 MILLION FAMILIES FOREGO THE PURCHASE OF AN AUTOMOBILE. THIS GOES TOO FAR IN TREATING THE STATISTICAL BOX "HOUSEHOLDS" AS IF IT LIMITED OFFICIAL USE

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WERE A SINGLE DECISION-MAKER.

E. CHANGE IN REAL GNP

--- \$ 1958 BILLION, SAAR
--- FROM IV 1973 TO I 1974

--- TOTAL AUTOS OTHER

GNP	-13.6	-12.3	-1.3	
PERSONAL CONS. EXP.	-4.1	-2.5	-1.6	
FIXED NON-RESIDENTIAL				
INVESTMENT	-.7	-.4	-.3	
RESIDENTIAL STRUCTURES		-3.3		-3.3
INVENTORY CHANGE		-9.0	-8.2	-.8
NET EXPORTS	PLUS .9	-1.1	2.0	
GOVERNMENT PURCHASES	PLUS 2.7	-.1	2.8	
BROWN				

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